



COMMONWEALTH of VIRGINIA

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MEMORANDUM

TO: Members, Joint Legislative Audit and Review Commission

FROM: Phil Leone, Director 

SUBJECT: Status Report on the Impact of JLARC Studies

JLARC has recently released a number of timely reports that have examined important issues concerning program and fiscal performance in State government. The intent of this memorandum is to inform the Commission of the latest actions taken by agencies and the General Assembly in response to JLARC recommendations.

I am pleased to report that significant progress is occurring on a number of findings and recommendations concerning the Virginia Department of Transportation (VDOT). VDOT is in the early stages of trying to improve its oversight, management, and planning of highway construction projects.

Other agencies, such as the Department of Medical Assistance Services (DMAS) and the Department of Education (DOE), have also reported actions that will result in more effective and efficient operations. For example, JLARC's research work has resulted in \$8 million in General Fund savings to the Medicaid program during the 2002-2004 biennium by controlling pharmacy costs.

We are proud of these achievements -- the highlights of which are discussed in this memorandum -- and look forward to working with the Commission and the General Assembly to make equally important contributions during 2002.

TRANSPORTATION STUDIES

JLARC has completed a number of studies addressing critical issues facing the Department of Transportation. These studies have identified serious shortcomings in VDOT's oversight, management, and funding of highway construction and maintenance programs.

Over the last several months, VDOT has confirmed the existence of many of the problems previously identified by JLARC staff, and has reported making a number of policy and program changes that appear to address these problems constructively. These changes are primarily in the areas of construction cost estimation, the use of consultants in designing construction projects, and the overall funding of the highway maintenance program.

Construction Cost Estimates

Recent assessments by VDOT of estimated costs for construction projects included in the Six Year Improvement Plan appear to confirm the findings of the 2001 JLARC report, ***Review of Construction Costs and Time Schedules for Virginia Highway Projects***. VDOT has found that costs of construction projects are substantially underestimated. For example, the latest VDOT cost estimate for construction of the Springfield Interchange Improvement Project has surpassed JLARC staff's estimate. Furthermore, increases in the estimated cost of the Route 288 construction project have exceeded the fixed price negotiated by the department in December 2000. Specifically:

- In December 2000, JLARC staff estimated that the cost of the Springfield Interchange Improvement Project would likely reach \$670 million. At that time, however, VDOT assured the Commission that the total construction cost would not exceed \$567 million. As of March 2002, VDOT estimates that the total cost for completion of the project will reach \$700 million.

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- In its presentation to the Commission in December 2000, VDOT indicated that JLARC's cost estimation methodology was flawed because applying it to the estimated cost for the Route 288 construction project would have resulted in an estimate of \$395 million. VDOT asserted that this was clearly erroneous because under the Public Private Transportation Act (PPTA) the department negotiated a contract for \$226 million. Due to the inclusion of preliminary engineering and right of way costs, as well as a decision to refinance its contractual obligations, in January 2002 VDOT increased the estimated cost of the project to \$390 million.
- JLARC staff estimated that the 2001 Six Year Improvement Plan appeared to understate estimated construction costs by \$3.5 billion. VDOT staff analysis presented in January 2002 confirms that total contractor payments, on average, exceed original contract amounts for construction projects by more than 25 percent. As a result of this analysis, this month VDOT will present a revised Six Year Plan with substantially fewer projects.

I would like to note that on May 1, 2002, the findings of the JLARC studies were cited in a report prepared by the U.S. General Accounting Office for the House of Representatives, Committee on Transportation and Infrastructure.

VDOT's Use of Consultants

In April 2002, VDOT staff presented to the Commonwealth Transportation Board findings of an analysis of the department's use of consultants for the design of highway construction projects. This analysis was conducted based on recommendations included in the 1999 JLARC study ***Review of the Use of Consultants by the Virginia Department of Transportation***. JLARC staff recommended this analysis be conducted because of an increasing trend in the use of consultants and the concern that VDOT lacked adequate

processes for monitoring consultant performance. Based on this analysis, VDOT staff found:

- Approximately 70 percent of all construction design work is performed by consultant labor.
- On average, consultant design costs are 46 percent higher than VDOT costs for similar projects, primarily as the result of salary and overhead costs.
- Actual consultant costs for the 50 projects sampled exceeded VDOT design estimates by more than \$16 million.

Highway Maintenance Program Funding

In January 2002, JLARC issued its report on the ***Adequacy and Management of VDOT's Highway Maintenance Program***. The central finding of this study was that the State had an estimated \$1.6 billion in additional pavement and bridge maintenance needs, and that the current funding levels appeared inadequate to meet these needs.

Furthermore, at the time of the study, the Department's 2002 biennium budget presented a reduction in the annual allocation to the maintenance program. As a result of these findings, JLARC staff recommended that the Commonwealth Transportation Board provide additional funding to the maintenance program. In April 2002, VDOT's approved budget included an annual increase in maintenance funding of approximately four percent.

Equity and Efficiency of Highway Construction and Transit Funding

In December 2001, JLARC released its report on the ***Equity and Efficiency of Highway Construction and Transit Funding***. This study provides options for revising the current system for allocating construction funding more efficiently and equitably. In addition, the study found that the existing administrative system needs to be replaced with a road classification system based on the

functional purpose of the roads, and the need to replace VDOT districts with new funding regions for purposes of allocating regional construction funds.

House Joint Resolution No. 211 of the 2002 Session establishes a joint subcommittee to study the recommendations and directs JLARC staff to provide technical assistance. The joint subcommittee has two years to complete its study.

IMPACT OF OTHER JLARC STUDIES

Legislative and Executive Actions on Public Education Funding Recommendations

The JLARC report on elementary and secondary school education funding identified options for enhancing State funding, and organized those options into three suggested tiers. Actions of the 2002 General Assembly address two of the components of the Tier One cost contained in the JLARC report. These components were: (1) the restoration of administrative personnel costs that had been erroneously dropped from the cost calculations in a prior year, and (2) a change in the calculation of the costs of the Standards of Quality to ensure that certain locally-generated revenues are not deducted before calculating the costs of the standards.

To implement these changes, Item 147C of the Appropriation Act provides an appropriation under Basic Aid of \$4,122,252 in FY 2003 and \$54,155,292 in FY 2004 to "pay for the State share of recognizing the prevailing number of administrative positions in local school divisions." Item 147C of the Appropriation Act also provides an appropriation of \$24,850,161 in FY 2003 and \$49,985,523 in FY 2004 to reduce and then eliminate the State's deduction of locally-generated revenues prior to determining the costs of the Standards of Quality.

In addition, the JLARC report indicated that there is a need for the Board of Education to address the conditions and needs of public education in its annual reports, and to re-examine the Standards of Quality to

ensure that the standards are realistic in relation to the Commonwealth's educational needs and practices. The State Board of Education has established an SOQ standing subcommittee to help it assess the conditions and needs of public education and to review and revise the SOQ. The Board has also scheduled, and is nearing completion of, a series of ten public hearings on the SOQ to "solicit suggestions and concerns from educators, parents, employees, civic and community leaders, and other citizens interested in public education."

Legislative Action to Achieve Savings in Pharmaceutical Product Costs

The JLARC report ***A Review of Selected Programs in the Department of Medical Assistance Services*** briefed in December 2001, found that cost savings could be achieved by increasing the discount upon the rate charged by pharmacies for drugs that are provided to Medicaid recipients. The report indicated that Virginia's discount rate of nine percent is low compared to other states. Item 325 of the 2002 Appropriation Act requires that the Board of Medical Assistance Services adopt regulations to be effective in FY 2003 that "shall decrease the maximum reimbursement to pharmaceutical products to the average wholesale price minus 10.25 percent." By increasing the discount from nine to 10.25 percent, the State budget anticipates total savings of \$16,182,087 during the 2002-2004 biennium. Of this amount, \$7,987,500 are State General Fund savings.

Steps Being Taken to Improve Child Health Insurance Program

In December 2001, the JLARC staff reported numerous implementation problems associated with Virginia's child health insurance program, known as Family Access to Medicaid Insurance Security (FAMIS). The study found that there was weak program design, management, and leadership, which has resulted in low enrollment of children in the program and the forfeiture of more than \$55 million federal dollars.

Five recommendations were directed at improving the program. The Department of Medical Assistance Services (DMAS) has reported significant progress in addressing each recommendation.

- Procedures are being developed to better track enrollees;
- A telephone survey was implemented in February 2002 to better assess reasons for cancellation of children's insurance coverage;
- A revised projection is being developed to accurately assess the total number of uninsured children in Virginia who are potentially eligible for Medicaid or FAMIS;
- DMAS is working to amend its Medicaid State Plan and regulations to adopt a single eligibility level of 133 percent of the federal poverty level for all children served in the Medicaid program;
- DMAS and the Department of Social Services are developing methods and procedures for improving communication on eligibility issues related to FAMIS.

Legislative Action on Revolutionary War Veteran Gravesite Program

Pursuant to House and Senate joint resolutions from the 1999 Session, JLARC staff developed a special report on the preservation of Revolutionary War veteran gravesites in Virginia. The Commonwealth has had a program to help provide for the care and maintenance of Confederate veteran gravesites, but has had no similar program for veterans of the American Revolution. The 2002 General Assembly adopted House Bill 919, providing for the establishment of a program to assist in maintaining these gravesites. Accordingly, Chapter 256 of the Acts of Assembly adds a section (10.1-2211.1) to the *Code of Virginia* to provide the statutory basis for the program. The provisions are effective on July 1, 2002.